

Tapping the Existing Homes Market



How to make Energy
Improvement Mortgages Work

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Definitions



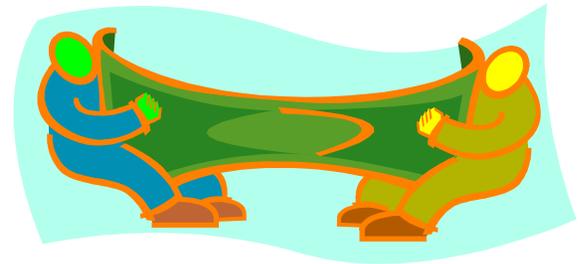
 Energy Mortgage (“EM”):

- Energy Efficient Mortgage (“EEM”)
- Energy Improvement Mortgage (“EIM”)



Energy Efficient Mortgage

- ☞ For homes that are already energy efficient (*typically new construction and better than code*)
- ☞ Allow lenders to stretch debt-to-income ratios or otherwise more easily qualify
- ☞ Some products with lower interest rates



Energy Improvement Mortgage

👉 Help improve the energy efficiency of existing homes through long-term, lower interest rate mortgage financing.



👉 Allow the lender to incorporate the cost of energy improvements into a mortgage.



120-year-old farmhouse

1½ story, 1,833-square-feet

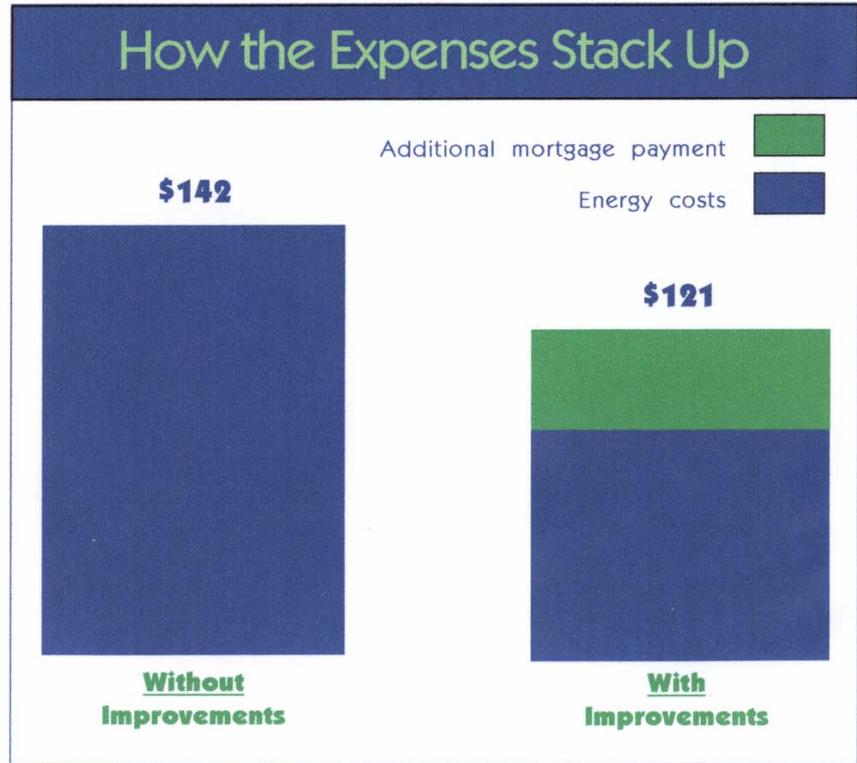
As Is Energy Rating: 2 Stars Plus

Annual energy costs of \$1,700.

Without Energy Improvements

\$142	Monthly energy costs	\$83
+ 0	Additional monthly mortgage payment	+ \$38
\$142	Monthly totals	\$121

With Energy Improvements



Barriers

- 👉 Lender and real estate agent motivations
- 👉 Unworkable mortgage products
- 👉 Relying on buyers to manage the work
- 👉 Qualified and available contractors
- 👉 Competent energy raters and project managers / "facilitators"
- 👉 Definitions



Elements of Successful EIM Programs

- 👉 No mortgage closing delays
- 👉 No significant increases in workloads or stress levels for lenders or real estate agents
- 👉 Positive relationships
- 👉 Opportunities for lenders and real estate agents to close more deals (and make more commissions)



Elements of Successful EIM Programs (con't)

- 👉 CM takes full responsibility to manage and complete each job successfully (on time, on budget, savings as projected)
- 👉 Identify and foster successful contractors
- 👉 Incorporate mortgage product(s) (or tax credits?) with some sort of interest rate or cash-back incentive to entice participants



EIM Contractor Model

- 👉 Oldest and most successful EIM service companies (since 1980)
- 👉 California “facilitators” with additional services:
 - 📄 lender liaison
 - 📄 customer mortgage product sales
 - 📄 general contractors
- 👉 Bobbi will cover



Rater EIM Model

- 👉 ERH-VT desire to remain independent, working for customer, not as a contractor
- 👉 “Turn-key” service necessary for success
- 👉 Challenges:
 - 📋 How to cover 15-20 hours (plus travel and marketing expenses) (\$800)
 - 📋 Secondary mortgage market approval for financing this fee
 - 📋 Can the package still be cost-effective?



EIM Service Elements



-  Sales
-  Site visit
-  Preliminary rating
-  Bids
-  Rating package
-  Closing
-  Contracts
-  Completion



Sales



- 👉 Lender leads
 - 📄 Lenders need constant reminders
 - 📄 EIMS compete with 50+ other mortgage products
 - 📄 Reward lenders for successful leads
 - ▷ Fruit basket
 - ▷ Name on promotional materials
 - ▷ Reciprocate with leads back their way
- 👉 Mortgage products that create demand are imperative for success
- 👉 Phone call can be enough to sell the service



Closing the Sale

- 👉 Express confidence and experience
- 👉 Focus on problem-solving
- 👉 Explain why EIMs work
 - 📋 Positive cash flow
 - 📋 Long-term financing
 - 📋 Lowest interest rates
- 👉 Guaranteed savings
- 👉 All fees can be financed and still cost-effective
- 👉 Cut losses by researching past fuel bills
- 👉 Only mortgage products that allow full financing of EIMS work
- 👉 Manage timeframe expectations: additional 6 weeks



Site Visit

- 👉 Coordinate with buyer, if possible
 - ☑ Better understand their needs and vision for improvements
 - ☑ Explain issues by showing
 - ▷ Blower door and duct blaster tests
 - ▷ Air leakage bypasses
 - ▷ Issues with mechanical equipment
 - ☑ Build working relationship
- 👉 Coordinate with primary contractor(s)
 - ☑ Get their input to help design package
 - ☑ Begin negotiation process
 - ☑ Improve turn-around time for bids



Preliminary Rating

- 👉 Run draft rating and improvements package(s) based on site visit
- 👉 Use best-estimate costs for initial cut
 - 📄 Depending on mortgage product, there will be different allowable packages
- 👉 Review options with lender and buyer
 - 📄 Final decision on what to bid based on cost-effectiveness and mortgage parameters



Bids



Not a desirable approach

- ☐ Takes too much time; delays closing
- ☐ Unpredictable turn-around time and costs, depending on their availability



However, necessary to determine firm, fixed costs, which is needed for mortgage

- ☐ Detailed specifications required



Establish working relationships with partner contractors:

- ☐ Establish agreed-upon per-unit costs
- ☐ Establish turn-around times
- ☐ In exchange for feeding exclusive work



Rating Package

- 👉 Review bid results with buyer and lender
 - 📄 Decide on measures and package to finance
- 👉 Complete paperwork
 - 📄 Rating certificate
 - 📄 Appraisal forms (if needed)
 - 📄 Lender forms



Closing



- 👉 Ensure all paperwork and forms are at lender's in time
- 👉 Lender closes and sets up escrow account
- 👉 Lender notifies rater to proceed with improvements
- 👉 Negotiate disbursements as required by contractor(s)



Contracts

 Rater establishes three-party contract with each contractor:

-  Rater-buyer-contractor
-  Reference specs used in bidding process
-  One-stop-shop contractors most desirable
-  Typically two contractors:
 -  Shell (insulation, air-sealing)
 -  Mechanical equipment
 -  Sometimes also electrician needed

 Collect signed contracts and give green light



Completion



- 👉 Ensure that work proceeds smoothly
- 👉 Problem-solving:
 - ☑ Specification clarification for contractor
 - ☑ Resolve homeowner-contractor issues
 - ☑ Enforce contracts (timeline, budget and improvement measures)
- 👉 Final inspection and rating
 - ☑ Testing as necessary
 - ☑ Approval to lender to release escrow



Customer Motivations

- 👉 House has obvious energy deficiencies and/or is old (“Problems”)
- 👉 The home inspector identifies a problem and lender requires they resolve
- 👉 Electric heat
- 👉 They really want or need the lower interest rate (or tax incentive?) available through a program



Why Consumers Pay \$800 Fee

- 👉 Lender will not allow the borrower to manage the project
- 👉 Customer has no experience or desire to become an energy expert
- 👉 Program requires it
 - 📄 Work to include this in new programs
 - 📄 Unless a professional is involved, program will not succeed



EIMS Results (11/97 - 5/00)

Metric	Results
Number of completed EIM jobs	41
Average initial rating score	56.4 points (2 Stars +)
Average post-improvement rating score	73.8 points (3 Stars +)
Average rating score increase	17.4 points
Average annual energy savings	67.4 MMBtu
Average annual energy cost savings	\$1,075
Average financed investment in energy improvements (and fees)	\$7,194
- Mechanical systems financed investment	\$4,356
- Weatherization financed investment	\$2,596
Average annual mortgage increase	\$586
Average cash flow generated	\$489 (\$41/month)



Recommendations for EIMS

- 👉 Build qualified rater capacity with strong skills:
 - 📄 Technical
 - 📄 Financial
 - 📄 Human relations
- 👉 Focus on one or two EIM programs
- 👉 Actively promote the program
- 👉 Charge for the rating based on a % of work (like architects do)
- 👉 Simplify the bidding process:
 - 📄 Pre-select qualifying contractors
 - 📄 Offer a non-bid option
 - 📄 Become a GC (some restrictions apply!)



Recommendations (con't)

- 👉 Line up utility support
- 👉 Secure some sort of incentive to build consumer interest and demand:
 - 📄 Housing Finance Agency
 - 📄 Tax credit
 - 📄 Utility involvement
 - 📄 Lender involvement



Other Approaches



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